

2005 Research Credit**3523**

Attach to your California tax return.

Social security or California corporation no.

Federal employer identification number (FEIN)

Name(s) as shown on return

Secretary of State file number

Part I Credit Computation. Read the instructions before completing this form.**Section A Regular Credit.** Skip this section and go to Section B, Alternative Incremental Credit, if you are electing the alternative incremental credit.

Line 1 through line 4 are to be completed only by corporations (other than S corporations, personal holding companies, and service organizations). Individuals, estates, trusts, and partnerships, begin on line 5.

- | | | |
|--|---|--|
| 1 Basic research payments paid or incurred during the taxable year. See instructions | 1 | |
| 2 Base period amount. See instructions | 2 | |
| 3 Subtract line 2 from line 1. If less than zero, enter -0- | 3 | |
| 4 Multiply line 3 by 24% (.24) | 4 | |

Qualified research expenses paid or incurred.

- | | | |
|---|-----|---|
| 5 Wages for qualified services. See instructions | 5 | |
| 6 Cost of supplies. See instructions | 6 | |
| 7 Rental or lease costs of computers. See instructions | 7 | |
| 8 Enter the applicable percentage of contract research expenses. See instructions | 8 | |
| 9 Total qualified research expenses. Add line 5 through line 8 | 9 | |
| 10 Enter fixed-base percentage, but not more than 16% (.16). See instructions | 10 | % |
| 11 Enter average annual gross receipts. See instructions | 11 | |
| 12 Base amount. Multiply line 11 by the percentage on line 10 | 12 | |
| 13 Subtract line 12 from line 9. If zero or less, enter -0- | 13 | |
| 14 Multiply line 9 by 50% (.50). See instructions | 14 | |
| 15 Enter the smaller of line 13 or line 14 | 15 | |
| 16 Multiply line 15 by 15% (.15) | 16 | |
| 17 a Regular credit. Add line 4 and line 16. If you do not elect the reduced credit under IRC Section 280C(c), enter the result here, and see instructions for the schedule that must be attached | 17a | |
| b Reduced regular credit under IRC Section 280C(c). Multiply line 17a by: | | |
| • 90.7% (.907) for individuals and estates or trusts; | | |
| • 91.16% (.9116) for corporations; or | | |
| • 98.5% (.985) for S corporations. | | |
| Enter the reduced credit amount and write "Section 280C" on the dotted line to the left of the entry space | 17b | |

Section B Alternative Incremental Credit. Skip this section if you completed Section A, Regular Credit.

Line 18 through line 21 are to be completed only by corporations (other than S corporations, personal holding companies, and service organizations). Individuals, estates, trusts, and partnerships, begin on line 22.

18	Basic research payments paid or incurred during the taxable year. See instructions	18	
19	Base period amount. See instructions	19	
20	Subtract line 19 from line 18. If less than zero, enter -0-	20	
21	Multiply line 20 by 24% (.24)	21	
Qualified research expenses paid or incurred.			
22	Wages for qualified services. See instructions	22	
23	Cost of supplies. See instructions	23	
24	Rental or lease costs of computers. See instructions	24	
25	Enter the applicable percentage of contract research expenses. See instructions	25	
26	Total qualified research expenses. Add line 22 through line 25	26	
27	Enter average annual gross receipts. See instructions	27	
28	Multiply line 27 by 1% (.01)	28	
29	Subtract line 28 from line 26	29	
30	Multiply line 27 by 1.5% (.015)	30	
31	Subtract line 30 from line 26. If zero or less, enter -0-	31	
32	Subtract line 31 from line 29. If zero or less, enter -0-	32	
33	Multiply line 27 by 2% (.02)	33	
34	Subtract line 33 from line 26. If zero or less, enter -0-	34	
35	Subtract line 34 from line 31. If zero or less, enter -0-	35	
36	Multiply line 32 by 1.49% (.0149)	36	
37	Multiply line 35 by 1.98% (.0198)	37	
38	Multiply line 34 by 2.48% (.0248)	38	
39	a Alternative incremental credit. Add line 21, line 36, line 37, and line 38. If you do not elect the reduced credit under IRC Section 280C(c), enter the result here, and see instructions for the schedule that must be attached	39a	
	b Reduced alternative incremental credit under IRC Section 280C(c). Multiply line 39a by:		
	• 90.7% (.907) for individuals and estates or trusts;		
	• 91.16% (.9116) for corporations; or		
	• 98.5% (.985) for S corporations.		
	Enter the reduced credit amount and write "Section 280C" on the dotted line to the left of the entry space	39b	
40	Pass-through research credit(s) from S corporations, estates, trusts, and partnerships. See instructions	40	
41	Current year research credit. If you did not elect the reduced credit under IRC Section 280C(c), add line 17a or line 39a to line 40 and enter the result here. If you elected the reduced credit under IRC Section 280C(c), add line 17b or line 39b to line 40 and enter the result here	41	
42	Enter the amount of credit on line 41 that is from passive activities. If none of the amount on line 41 is from passive activities, enter -0-	42	
43	Subtract line 42 from line 41	43	
44	Enter the allowable credit from passive activities. See instructions	44	
45	Non-passive activity credit carryover from prior year. See instructions	45	
46	Total available research credit. Add line 43 through line 45	46	
Caution: Your credit may be limited. See instructions for line 46.			

Part II Carryover Computation. Do not complete this part if you must file Schedule P (100, 100W, 540, 540NR, or 541).

47	Amount of research credit claimed on current year tax return. See line 46 instructions	47	
48	Credit carryover available to future years. Subtract line 47 from line 46	48	

Instructions for Form FTB 3523

Research Credit

References in the form and instructions are to the Internal Revenue Code (IRC) as of **January 1, 2005**, and to the California Revenue and Taxation Code (R&TC).

What's New

California has not conformed to the federal changes made to the Internal Revenue Code by the 2005 Energy Tax Act (Public Law 109-58), including, but not limited to federal changes creating the "energy research consortium" credit (Public Law 109-58, section 1351(a) enacted on August 8, 2005).

Important Information

Federal/State Conformity

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, please visit our Website at www.ftb.ca.gov and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

General Information

A Purpose

Existing companies and "start-up" companies use form FTB 3523 to compute and claim the research credit for increasing the research activities of a trade or business. You can also use this form to claim pass-through research credits received from S corporations, estates, trusts, and partnerships.

S corporations, estates, trusts, and partnerships should complete form FTB 3523 to compute the amount of credit to pass through to shareholders, beneficiaries, partners, or members. Attach this form to Form 100S, Form 541, Form 565, or Form 568. Show the pass-through credit for each shareholder, beneficiary, partner, or member on Schedule K-1 (100S, 541, 565, or 568).

B Description

The credit is 15% of the excess of qualified research expenses for the taxable year over the base period research expenses. Corporations are allowed the 15% credit amount plus credit for 24% of the basic research payments. Get FTB Pub. 1082, Research & Development Credit: Frequently Asked Questions, for further information.

Instead of the regular credit, taxpayers may elect the alternative incremental credit in which taxpayers are assigned a smaller three-tiered fixed-base percentage and a reduced three-tiered credit rate (1.49%, 1.98%, and 2.48%).

Note: To claim the California research credit, you **do not** have to claim the federal research credit.

California conforms to the federal definition for qualified research expenses under IRC Section 41(b).

IRC Section 41(b) states that the "qualified research expense" means the sum of the following amounts which are paid or incurred by the taxpayer during the taxable year in carrying on any trade or business of the taxpayer:

- In-house research expenses and contract research expenses;
- "Qualified services," means engaging in qualified research e.g., direct supervision or direct support of research activities;
- "Qualified supplies," means any tangible property other than land or improvements to, and property of a character subject to the allowance for depreciation; and
- Qualified wages.

Qualified research expenses do not include any amounts paid or incurred on or after January 1, 1999, for tangible personal property eligible for the exemption from sales or use tax under R&TC Section 6378. The eligible property is tangible personal property used primarily:

1. In teleproduction or other postproduction services; or
2. To maintain, repair, measure, or test any property described in 1.

Get federal Form 6765, Credit for Increasing Research Activities, for additional information on the federal definition. For the full definition of "qualified research expenses," the taxpayer should refer to IRC Section 41(b).

For payments made to certain nonprofit qualified research consortia, 75% (instead of 65%) of the payments are treated as qualified research expenses.

C Limitations

The research credit is not refundable.

- The basic and qualified research must have been conducted within California.

Note: If your business is conducted both within and outside of California, for purposes of determining the base amount, gross receipts are the receipts from the sale of property that is held primarily for sale to customers (in the ordinary course of your trade or business) and that is delivered or shipped to customers in California.

- A husband and wife may claim only one credit. If separate returns are filed, the credit may be taken by either or divided equally between them.
- S corporations may claim only 1/3 of the credit against the 1.5% entity-level tax (3.5% for financial S corporations) after applying the limitations relating to passive activity losses and credits. If you are an S corporation claiming this credit, compute the credit at 100%. Multiply the credit computed on this form by 1/3 and transfer the amount to Schedule C (100S).
- S corporations can pass through 100% of this credit to their shareholders on a pro-rata basis. Partnerships must allocate the credit among the partners according to the partner's distributive share as determined in a written partnership agreement. See R&TC Section 17039(e).
- If a taxpayer owns an interest in a disregarded business entity (a Single Member Limited Liability Company not recognized [disregarded] by California for tax purposes that is treated as a sole proprietorship owned by an individual or a branch owned by a corporation), the amount of the credit that can be utilized is limited to the difference between the taxpayer's regular tax computed with the income of the disregarded entity, and the taxpayer's regular tax computed without the income of the disregarded entity. If the disregarded entity reports a loss, the taxpayer may not claim the credit this year but can carry over the credit amount received from the disregarded entity. For more information on disregarded business entities, get Form 568, Limited Liability Company Tax Booklet.

This credit cannot reduce the minimum franchise tax (corporations and S corporations), annual tax (partnerships and QSub), alternative minimum tax (corporations, exempt organizations, individuals, and fiduciaries), built-in gains tax (S corporations), or excess net passive income tax (S corporations).

This credit can reduce regular tax below tentative minimum tax (TMT). See Schedule P (100, 100W, 540, 540NR, or 541) for more information.

Note: This credit may be limited further. See IRC Section 41(g) and line 17b instructions for details.

Corporate Members of a Unitary or Combined Group

This credit cannot be allocated or otherwise transferred to another taxpayer, even if the other taxpayer is a member of a unitary or combined group or otherwise affiliated with the taxpayer that earned the credit. For example, a subsidiary corporation that generates a research credit cannot allocate the credit to the parent corporation.

D Carryover

If the available credit exceeds the current year tax, the unused credit can be carried over to succeeding years until exhausted. Apply the carryover to the earliest taxable year(s) possible. In no event can this credit be carried back and applied against a prior year's tax.

Specific Line Instructions

Part I – Credit Computation

For purposes of computing the credit, all members of a controlled group of corporations, as defined in IRC Section 41(f)(5), and all members of a group of businesses under common control, are treated as a single taxpayer. The credit allowed each member is based on its proportionate shares of the group's qualified research expenses and basic research payments. Use Section A or Section B of Part I to compute the credit for the entire group, but enter only this member's share of the credit on line 17 or line 39, whichever applies. Attach a statement showing how this member's share of the credit was computed, and write "See attached" next to the entry space for line 17 or line 39.

Section A – Regular Credit

Line 1

Corporations (other than S corporations, personal holding companies, and service organizations) may be eligible for a "basic research" credit if the cash payments exceed the base period amount as determined on line 2 of this section. To be eligible, the basic research must be performed pursuant to a written contract and be performed within California.

Enter the basic research payments paid in cash during the tax year 2005 made to a qualified university or scientific research organization. To be eligible, the basic research must be performed pursuant to a written contract, performed by a qualified organization, and be performed within California. See IRC Section 41(e) and R&TC Section 23609 for additional information.

Biopharmaceutical and Biotech Research Activities

For taxable years beginning on or after January 1, 1996, corporations (other than S corporations, personal holding companies, and service organizations) that are engaged in certain biopharmaceutical research and biotech research and development activities (as defined below), and that make payments to hospitals run by public universities (as defined below) or qualified cancer centers (as defined below), may be eligible to claim the "basic research" credit if they meet specific criteria.

The taxpayer's biopharmaceutical activities must satisfy both of the following:

- Meet at least one of the biopharmaceutical research activities described in Codes 2833 to 2836, inclusive, or any research activities that are described in Codes 3826, 3829, or 3841 to 3845, inclusive, of the Standard Industrial Classification Manual published by the United States Office of Management and Budget, 1987 Edition; and
- Use organisms or materials derived from organisms, and their cellular, subcellular, or molecular components to provide pharmaceutical products for human or animal therapeutics and diagnostics. For biotechnology research and development, taxpayers must be involved in research and development activities regarding the application of recombinant DNA technology or pharmaceutical delivery systems.

If the taxpayer's activities meet the criteria mentioned in the previous paragraphs and such payments are made to a cancer center, the cancer center must be a "qualified cancer center" which is defined as meeting all of the following criteria:

- Is owned by a tax-exempt organization described in IRC Section 501(c)(3);
- Is tax-exempt under federal law. See IRC Section 501 (a);
- Is not a private foundation;
- Has been designated a "specialized laboratory cancer center," and
- Has received Clinical Cancer Research Center status from the National Cancer Institute.

If the taxpayer's activities meet the criteria mentioned above and such payments are made to a hospital owned by a public university, the hospital must be an organization described in IRC Section 170(b)(1)(A)(iii), and the public university that runs such hospital must be an institution of higher education as described in IRC Section 3304(f).

Line 2

Enter the base amount as defined in IRC Section 41(e) and R&TC Section 23609. The base period will generally be the three taxable years preceding the taxpayer's 1st taxable year beginning after December 31, 1983. If you were not in existence during the base period for California purposes, you are subject to a minimum floor amount equal to 50% of your current basic research payments. If you do business both within and outside California, see General Information C, Limitations. The amount of line 2 may not exceed the amount of line 1. The current basic research payments that do not exceed the base period amount shall be treated as contract research expenses included on line 8, (subject to the 65% or 75% limitation).

Lines 5 and 6

See General Information B, Description, for information regarding qualified research expenses.

Line 7

See IRC Section 41(b)(2)(A)(iii) for rules on leased computer property if you receive payments from anyone for the rental or lease of substantially identical property. Also see General Information B, Description, for information regarding qualified research expenses.

Line 8

Include 65% of any amount paid or incurred for qualified research performed on your behalf. For corporations only, include 65% of the portion of line 1 basic research payments that does not exceed the line 2 base period amount.

However, use 75% in place of 65% for payments made to a qualified research consortium. A qualified research consortium is a tax-exempt organization described in IRC Section 501(c)(3) or Section 501(c)(6) that is organized and operated primarily to conduct scientific research and is not a private foundation.

Line 10

Compute the fixed-base percentage as follows:

Existing companies – The fixed-base percentage is the ratio that the aggregate qualified research expenses for at least three taxable years from 1984 to 1988 bear to the aggregate gross receipts for such taxable years. Round off the percentage to the nearest 1/100th of 1% (i.e., four decimal places).

Start-up companies – A start-up company is one that had both gross receipts and qualified research expenses either:

1. For the first time in a taxable year beginning after December 31, 1983; or
2. For fewer than three taxable years beginning after December 31, 1983, and before January 1, 1989.

The fixed-base percentage for a start-up company is 3% for each of the company's first five taxable years beginning on or after January 1, 1994, that the company has qualified research expenses. There is a 10-year phase-in period leading up to a credit based on five years of experience.

During the phase-in period, 3% continues to be used as the fixed-base percentage for a start-up company, but only during each of the company's first five taxable years beginning after 1993 for which it has a qualified research expense. For a start-up company's fixed-base percentage for its sixth through tenth years beginning after 1993, see IRC Section 41(c)(3)(B)(ii).

Note: The maximum percentage that can be entered on line 10 is 16% (.16).

Line 11

Enter the average annual gross receipts for the four taxable years preceding the taxable year for which the credit is being determined (called the credit year). You may be required to annualize gross receipts for any short taxable year. See IRC Section 41(c)(1)(B) and Section 41(f)(4) for details.

For purposes of line 10 and line 11, reduce gross receipts for any taxable year by returns and allowances made during the taxable year. In the case of a business that is within and outside of California, include only the gross receipts from the sale of property held primarily for sale to customers in the ordinary course of your trade or business that is delivered or shipped to customers in California, regardless of "free on board" (f.o.b.) point or any other condition of the sale. This includes sales to the U.S. government, that are delivered or shipped to customers in California. Throwback sales and receipts from services, rents, operating leases and interest, royalties and licenses are excluded from the computation.

Line 14

The base amount cannot be less than 50% of the current year qualified research expenses. This rule applies both to existing and start-up companies.

Line 17a

Unless you made an election to reduce the research credit, deductions under IRC Section 174 or any other deduction or credit provision for research expenses or basic research payments must be reduced by the amount of your current year's research credit. Attach a schedule to your tax return that lists the deduction amounts (or capitalized expenses) that were reduced. Identify the lines of your return (schedule or forms for capitalized items) on which the reductions were made.

Line 17b – S corporations, estates, trusts, and partnerships:

The amount of research credit passed through to your shareholders, beneficiaries, partners, or members is the pro-rata or distributive share of the amount on line 17a multiplied by the shareholder's, beneficiary's, partner's, or member's applicable credit reduction percentage as follows:

- 90.7% (.907) for individuals and estates or trusts;

- 91.16% (.9116) for corporations; or
- 98.5% (.985) for S corporations.

Note: In some cases, the pass-through entity may not know what type of entity the shareholder, beneficiary, partner, or member is. In these cases, the pass-through entity will report the pro-rata share or distributive amount of research credit on Schedule K-1 (100S, 541, 565, or 568) without the IRC Section 280C(c) reduction. The pass-through entity must note in the supplementary information section of the Schedule K-1 (100S, 541, 565, or 568) that the credit must be reduced by the shareholder's, beneficiary's, partner's, or member's applicable credit reduction percentage.

Example 1: For the taxable year ending December 31, 2005, ABC, Inc., an S corporation, generated \$3,000 in research credit. ABC, Inc. elects the reduced research credit. ABC, Inc. figures its research credit as follows:

Step 1: $\$3,000 \times 1/3 = \$1,000$

Step 2: $\$1,000 \times 98.5\% (.985) = \985

This amount is the research credit available to ABC, Inc. for its 2005 taxable year.

John Anderson is the sole shareholder (100%) in ABC, Inc. John materially participates in the business of ABC, Inc., holds no interest in any passive activity, and does not have any non-passive activity credit carryover from previous years. The election by ABC, Inc. to the reduced research credit also applies to John and his tax year 2005 pass-through research credit is computed as follows:

Step 1: $\$3,000 \times 100\% (1.0) = \$3,000$

Step 2: $\$3,000 \times 90.7\% (.907) = \$2,721$

This amount is the pass-through research credit available to John for his 2005 taxable year.

Example 2: Partnership AB has two partners each with 50% ownership. Partner A is an individual, and Partner B is a corporation. The partnership elects the regular reduced credit. The amount of regular credit computed by the partnership on line 17a is \$2,000. Partnership AB would figure each partner's credit from the line 17a amount as follows:

Partner A – $\$2,000 \times 50\% (.50) \times 90.7\% (.907) = \907

Partner B – $\$2,000 \times 50\% (.50) \times 91.16\% (.9116) = \912

These amounts are the research credit available to Partner A and Partner B for their 2005 taxable years.

Note: Amounts received from S corporations, estates, trusts, and partnerships, may be limited due to IRC Section 41(g) and the related regulations.

Section B – Alternative Incremental Credit

Complete this section **ONLY** if you are electing the alternative incremental credit instead of the regular credit. The election may be made for any taxable year beginning on or after January 1, 1998 and ending prior to January 3, 2001. For taxable years ending on or after January 3, 2001, the election must be made on a timely filed original return for the taxable year to which the election applies. Once made, the election applies to the current taxable year and all later years unless you receive the Franchise Tax Board's (FTB) consent to revoke the election.

Line 18

Corporations (other than S corporations, personal holding companies, and service organizations) may be eligible for a "basic research" credit if the 2005 tax year payments in cash made to a qualified university or scientific research organization (under a written contract) exceed a base period amount (based on your general university giving and certain other maintenance-of-effort levels for the three preceding years). To be eligible, the basic research must have been conducted within California.

Enter your 2005 tax year payments on line 18. See IRC Section 41(e) and R&TC Section 23609(d) for details. Also see line 1 instructions for additional information.

Line 19

Enter the base amount as defined in IRC Section 41(e) and R&TC Section 23609. If you do business both within and outside of California, see General Information C, Limitations. The amount on line 19 may not be more than the amount on line 18. This amount may be classified as 2005 tax year contract research expenses on line 25 (subject to the 65% or 75% limitation).

Line 22

See line 5 instructions.

Line 23

See line 6 instructions.

Line 24

See line 7 instructions.

Line 25

Include 65% of any amount paid or incurred for qualified research performed on your behalf. For corporations only, include 65% of the portion of line 18 basic research payments that does not exceed the line 19 base period amount.

For taxable years beginning on or after January 1, 1997, use 75% in place of 65% for payments made to a qualified research consortium. A qualified research consortium is a tax-exempt organization described in IRC Section 501(c)(3) or 501(c)(6) that is organized and operated primarily to conduct scientific research and is not a private foundation.

Line 27

Enter the average annual gross receipts for the four taxable years preceding the taxable year for which the credit is being determined (called the credit year). You may be required to annualize gross receipts for any short taxable year. See IRC Sections 41(c)(1)(B) and 41(f)(4) for details.

For purposes of line 27, reduce gross receipts for any taxable year by returns and allowances made during the taxable year. In the case of a business that operates within and outside of California, include only the gross receipts from the sale of property held primarily for sale to customers in the ordinary course of your trade or business that is delivered or shipped to customers in California, regardless of f.o.b. point or any other condition of the sale.

Line 39a

See line 17a instructions.

Line 39b

See line 17b instructions.

Line 40 – Individuals, shareholders, beneficiaries, partners, and members:

If the S corporation, estate, trust, or partnership elected the reduced research credit, the amount of research credit passed through to you on Schedule(s) K-1 (100S, 541, 565, or 568) should reflect a research credit amount in which the applicable credit reduction percentage has been applied. Your election of the credit reduction must be consistent with that of the pass-through entity. However, the credit reduction percentage may differ from that of the pass-through entity.

In some cases, the pass-through entity may not know what type of entity the shareholder, beneficiary, partner, or member is. In these cases, the pass-through entity will report the pro-rata or distributive amount of research credit on Schedule K-1 (100S, 541, 565, or 568) without the IRC Section 280C(c) reduction. The pass-through entity will note in the supplementary information section of the Schedule K-1 (100S, 541, 565,

or 568) that the credit must be reduced by the shareholder's, beneficiary's, partner's, or member's applicable credit reduction percentage as follows:

- 90.7% (.907) for individuals and estates or trusts;
- 91.16% (.9116) for corporations; or
- 98.5% (.985) for S corporations.

The amount of research credit passed through to you on Schedule(s) K-1 (100S, 541, 565, or 568) may be limited due to IRC Section 41(g) and the related regulations. Specifically, the amount of credit entered on this line is limited to the amount of tax attributable to your interest in the proprietorship, S corporation, estate, trust, or partnership generating the credit. Use the formula below to determine the credit limitation. If you have pass-through research credits from more than one business interest, compute the research credit limitation separately for each business interest by applying the formula below to each pass-through credit.

$$\text{Credit Limit} = \frac{\text{Taxable income attributable to your interest in the sole proprietorship or pass-through entity (Schedule K-1)}}{\text{Total taxable income for the year (Form 540, line 19; Long Form 540NR, line 19; or Form 541, line 20)}} \times (\text{Net income tax})$$

For purposes of completing the above formula, **net income tax** is regular tax (from Form 540, line 24; Long Form 540NR, line 27; or Form 541, line 21) **plus** alternative minimum tax (from Form 540, line 34; Long Form 540NR, line 43; or Form 541, line 26).

Note: The percentage representing taxable income attributable to your interest in the business to your total taxable income for the year cannot exceed 100%. If in the current taxable year you had no income attributable to a particular business interest, you cannot claim any research credit related to that business this year; however, the credit can be carried over to succeeding years until exhausted. Likewise, any current year pass-through research credit that exceeds the IRC Section 41(g) limitation may be carried over to succeeding years until exhausted. **Note:** All pass-through credit carryovers will be subject to the IRC Section 41(g) limitation in each subsequent year.

Line 44

If any part of the amount on line 41 is from a passive activity, you must complete form FTB 3801-CR, Passive Activity Credit Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations, to determine your allowable credit. Complete form FTB 3801-CR or form FTB 3802 (**using California amounts**) before completing the rest of this form.

Line 45

Enter any prior year research credit carryover **from non-passive activities only**. Any prior year research credit carryover from passive activities should have been included in the computation of allowable credits from passive activities (form FTB 3801-CR or form FTB 3802) on line 44.

Individuals, shareholders, beneficiaries, partners, and members: If the non-passive research credit carryover was generated from a pass-through entity, you must apply the IRC Section 41(g) limitation to the credit carryover before entering the allowable carryover on line 45. See the instructions for line 40 above on how to compute the IRC Section 41(g) limitation.

Line 46

The amount of this credit you may claim on your tax return may be limited further. Refer to the credit instructions in your tax booklet for more information. These instructions also explain how to claim this credit on your tax return. You must use credit code number **183** to claim this credit. See General Information C, Limitations, for more information.